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Mexico

Citrus

Semi-Annual Report

2005

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Report Highlights:

The fresh orange production forecast for MY 2004/05 was revised downward to 4.1 MT. However, producers indicate it will still be a higher production year than MY 2003/04. Fresh orange prices are expected to be low. As the processing industry now has the opportunity of buying more fruit at lower prices and international prices of FCOJ are good, FCOJ production and exports are both forecast to be higher than those of MY 2003/04.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Unscheduled Report
Mexico [MX1]
[MX]

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SECTION I. Situation and Outlook

Most of the area planted with citrus has recovered from the dry weather conditions that prevailed along the Gulf of Mexico during 2002 and 2003. Although the fresh orange production forecast for MY 2004/05 was revised downward from previous estimates to 4.1 MMT, due to less area planted than originally forecast, it still reflects a 5.6-percent increase over MY 2003/04 orange production because of good weather conditions. In fact, the higher volume of oranges has resulted in lower prices for fresh oranges compared to MY 2003/04 prices. This fact, coupled with stronger international prices for frozen concentrate orange juice (FCOJ), will allow the industry to buy more oranges for processing and produce and export more FCOJ in MY 2005.

SECTION II. Statistical Tables

FRESH ORANGE PS&D

Country	Mexico					
Oranges, Fresh	(HECTARES) (1000 TREES) (1000 MT)					
	2002 Revised		2003 Estimate		2004 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	11/2002		11/2003		11/2004	
Area Planted	355387	355387	349600	349705	354000	346000
Area Harvested	329942	329942	334000	334274	336000	336000
Bearing Trees	66648	66648	67468	67523	67872	67872
Non-Bearing Trees	5089	5089	3151	3117	3636	2222
TOTAL No. Of Trees	71737	71737	70619	70640	71508	70094
Production	3734	3734	4000	3901	4400	4120
Imports	39	39	18	18	18	18
TOTAL SUPPLY	3773	3773	4018	3919	4418	4138
Exports	7	7	10	13	20	20
Fresh Dom. Consumption	3686	3686	3913	3706	3998	3618
Processing	80	80	95	200	400	500
TOTAL DISTRIBUTION	3773	3773	4018	3919	4418	4138

FRESH CONCENTRATE ORANGE JUICE PS&D

Country	Mexico				65 Degrees Brix	
Orange Juice					(MT)	
	2002 Revised		2003 Estimate		2004 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	01/2003		01/2004		01/2005	
Deliv. To Processors	80000	80000	95000	200000	400000	500000
Beginning Stocks	1000	1000	1000	1000	1000	1000
Production	8000	8000	9500	20100	40000	50000
Imports	200	200	165	400	165	400
TOTAL SUPPLY	9200	9200	10665	21500	41165	51400
Exports	4000	4000	5200	16035	33365	43600
Domestic Consumption	4200	4200	4465	4465	4800	4800
Ending Stocks	1000	1000	1000	1000	3000	3000
TOTAL DISTRIBUTION	9200	9200	10665	21500	41165	51400

TRADE MATRIXES

ORANGES

ORANGES		HTS. 0805.10.01		UNIT: METRIC TONS	
EXPORTS FOR MY 2003/04 (Nov-Oct)			IMPORTS FOR MY 2003/04 (Nov-Oct)		
TO:			FROM:		
U.S.	12,369	U.S.	18,211		
OTHER		OTHER			
CANADA	349	ARGENTINA	18		
OTHER NOT LISTED		OTHER NOT LISTED		0	
TOTAL		TOTAL		18,229	

SOURCE: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, December 2004.

FRESH CONCENTRATE ORANGE JUICE

FCOJ		HTS. 2009.11		UNIT: LITERS	
EXPORTS FOR MY 2004 (Jan-Dec)			IMPORTS FOR MY 2004 (Jan-Dec)		
TO:			FROM:		
U.S.	6,016	U.S.	617		
OTHER		OTHER			
U.K.	1,612				
JAPAN	1,176				
OTHER NOT LISTED		OTHER NOT LISTED		0	
TOTAL		TOTAL		617	

SOURCE: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, December 2004.

ORANGE JUICE NOT FROZEN

ORANGE JUICE, NOT FROZEN		HTS. 2009.19		UNIT: LITERS	
EXPORTS FOR MY 2004 (Jan-Dec)			IMPORTS FOR MY 2004 (Jan-Dec)		
TO:			FROM:		
U.S.	8,674	U.S.	2,375		
OTHER		OTHER			
ECUADOR	155				
OTHER NOT LISTED		OTHER NOT LISTED		1	
TOTAL		TOTAL		2,376	

SOURCE: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, December 2004.

WHOLESALE ORANGE PRICES

WHOLESALE ORANGE PRICES (PESOS/KG)				
Month	2003	2004	2005	Change % 04/05
January	1.62	1.63	1.35	(17.17)
February	1.74	1.63	1.38	(15.33)
March	2.23	1.78	1.44	(19.10)
April	2.61	1.93	1.50*	(22.27)
May	3.05	2.08	N/A	N/A
June	4.64	2.23	N/A	N/A
July	4.46	2.33	N/A	N/A
August	3.78	3.12	N/A	N/A
September	3.01	3.07	N/A	N/A
October	2.39	2.15	N/A	N/A
November	1.84	1.66	N/A	N/A
December	1.81	1.50	N/A	N/A

SOURCE: SERVICIO NACIONAL DE INFORMACION DE MERCADOS
CIF MEXICO CITY
AVR. EXCHANGE RATE FOR 2003 US\$1.00 = \$ 10.79 PESOS
AVR. EXCHANGE RATE FOR 2004 US\$1.00 = \$ 11.29 PESOS
EXCHANGE RATE MARCH 31, 2005 US\$1.00 = \$ 11.22 PESOS
*Data as of April 11, 2005

SECTION III. Narrative on Supply & Demand, Policy & Marketing**FRESH ORANGES****PRODUCTION**

The fresh orange production forecast for marketing year 2004/05 (November-October) was revised downward to 4.1 MMT, due to less area planted than initially forecast. Although this is a 6.3-percent decrease from the previous preliminary forecast, it still represents a 5.6-percent increase over MY 2003/04 orange production estimates, due primarily to good weather conditions. Data indicates that MY 2004/05 production is expected to be relatively higher, mainly for the late variety oranges. MY 2003/04 orange production was revised downward to 3.9 MMT based on official final estimates. Lower rainfall in the Gulf of Mexico region somewhat affected overall orange production. Data for MY 2002/03 remains unchanged.

The forecast for oranges destined for processing for MY 2004/05 was revised upward to 500,000 MT, due to a bigger crop and larger supplies available at lower prices. The MY 2003/04 estimate for oranges destined for processing was also revised upward to 200,000 MT, due to good international FCOJ prices, large domestic production, and relatively low fresh orange prices. The industry indicates that international prices for frozen concentrate orange juice (FCOJ) have generally been low, thereby limiting FCOJ production in Mexico in recent years. However, industry is expecting to produce more FCOJ juice for MY 2005 due to market conditions which started to improve in MY 2004.

Area planted for MY 2004/05 was revised downward based on preliminary official estimates and the abandoning of groves, due to previous weather problems and high production costs. Area planted and harvested for MY 2003/04 was revised slightly upward from the previous forecast based on official information. However, area planted reflects a downsizing of groves compared to MY 2002/03. In general, growers have been abandoning groves or switching to other crops, due to high production costs, wide swings in fresh orange prices, and marketing problems. Orange production has increased in the state of Nuevo Leon, but this is more a result of increased tree density than of expansion in area planted. However, the excellent weather conditions that prevailed during MY 2004/05 may encourage growers to at least maintain current area planted. Countrywide orange yields for MY 2004/05 are forecast at 12.3 MT/ha, due to good weather conditions. MY 2003/04 yields were lower at 11.7 MT/ha, due to dry weather conditions. Area planted and harvested for MY 2002/03 remains unchanged.

MY 2004/05 grower prices at the farm gate began in October 2004 at approximately \$1,100 pesos/MT (US\$95.65/MT) for the early varieties in Veracruz and swung from \$400 to \$700 pesos/MT (US\$36.03 to \$63.06/MT) during the peak harvest months of February and March 2005, due to oversupplies.

POLICY

The National Citrus Committee, as mandated by the Law of Rural Sustainable Development, is working to organize producers, nurseries, packers, industry processors, traders and exporters in an effort to better integrate citrus production in Mexico. This integration, along with government support, has contributed, over the past three to four years, to the expansion of the industry from four processing plants to 14 processing plants. The President of the Committee indicated that currently there are about 67,000 growers producing citrus in 23 states in Mexico, approximately 511,000 hectares dedicated to total citrus production (i.e., oranges, limes, and grapefruit), and some 5.5 MMT of citrus. According to the

Committee, of total citrus production, about 75 percent goes to the fresh market, approximately 15 percent to the processing industry, and 10 percent to the export market. The Mexican citrus industry consists of 138 packing plants, 14 juice processing plants, 5 slice-peeling plants, and 10 certified nurseries. Within the Committee, producers discuss the best ways to continue producing and to prioritize the needs of the sector. These and other activities are preparing the citrus agroindustry to take advantage not only of the full tariff and tariff rate quota (TRQ) elimination which will occur under NAFTA in 2008, but also of Mexico's free trade agreements with the European Union and Japan.

CONSUMPTION

The fresh orange consumption forecast for MY 2004/05 has been revised downward from the previous forecast to 3.6 MMT, due to lower availability of fresh oranges than initially expected and to a higher volume of oranges used by the processing industry. Final consumption estimates, however, will depend on the final volume purchased by the processing industry. The processing industry indicates that larger supplies of oranges available at lower prices will increase the volume of oranges destined for processing. The MY 2003/04 consumption estimate was also revised downward, due to larger-than-initially-expected supplies for the industry. The MY 2002/03 consumption estimate remains unchanged.

Because of larger supplies, MY 2004/05 wholesale fresh orange prices during November/December 2004 started low, on average \$1.58 pesos/MT (US\$0.14/kg), compared to MY 2003/04 prices. Prices are expected to continue along this same trend during MY 2004/05. Most of the oranges in the fresh market are destined for domestic fresh squeezed juice. March/April 2005 retail prices for Valencia oranges were approximately \$3.40 pesos/kg (US\$0.30/kg).

TRADE

The forecast for fresh orange exports for MY 2004/05 remains unchanged, but final export figures will depend on U.S. demand and orange supplies from California and Florida, which are currently forecast to be down 3 percent. Most of Mexico's oranges that are exported to the United States are from Sonora, a state that produces very good, high-quality oranges, but Nuevo Leon is also increasing its orange exports to both the United States and Canada. Export estimates for oranges for MY 2003/04 were revised upward due to more demand from the United States. Export data for MY 2002/03 remains unchanged. The United States continues to be the largest export market for Mexican oranges. Under NAFTA, tariffs and TRQs for fresh oranges have already been eliminated between Mexico and the United States.

Mexico will have more opportunities to expand its fresh orange exports to Japan under the new trade agreement that entered into effect on April 1, 2005. Under this agreement, Mexico will have a duty-free annual quota of 10 MT of oranges during the first two years (i.e., MY 2005/06 and 2006/07) – a small volume which is to be used mainly for promotional purposes. In MY 2007/08, the duty-free annual quota goes up to 2,000 MT and increases by 1,000 MT each year until it reaches 4,000 MT in MY 2009/10. After this time, Mexico's access to the Japanese market must be renegotiated.

The import forecast for MY 2004/05 remains unchanged due to large domestic orange supplies at relatively affordable prices. MY 2002/03 and MY 2003/04 orange imports remain unchanged. U.S. orange prices are higher than those for Mexican oranges.

MARKETING

U.S. citrus fruit exporters should be aware of the fact that the Mexican market is more price sensitive than quality sensitive. This is one of the main reasons for limited exports of U.S. citrus products. Because of the excellent quality, U.S. oranges command a price four to five times higher than Mexican prices. Some attempts have been made by U.S. firms to enter the market, but they have had limited success because of strategies emphasizing quality rather than price. Due to phytosanitary restrictions, only citrus fruit coming from California, Texas and Arizona can be exported to Mexico.

FROZEN CONCENTRATE ORANGE JUICE

PRODUCTION

Reliable frozen concentrate orange juice (FCOJ) production numbers are difficult to obtain, as there is no official statistical data available. Industry tends to keep partial information, most of which is proprietary. The FCOJ production forecast for MY 2005 (January-December) was revised upward to 50,000 MT due to expected higher fresh orange production, lower orange prices available to the industry, and better international prices for FCOJ. FCOJ May future contracts for CY 2005 are at approximately US\$1.00/lb, compared to CY 2004 prices of US\$0.60/lb. The present situation of higher FCOJ prices allows for better industry profit margins. The industry bought fresh fruit in March 2005 at approximately \$430 to \$500 pesos/MT (US\$ 38.05 to \$44.24/MT) compared to buys of about \$800 pesos/MT (US\$70.30/MT) in March 2004.

The FCOJ production estimate for MY 2004 was also revised upward to 20,100 MT, due to a higher demand from the international markets and availability of fresh oranges. Data for MY 2003 remains unchanged.

CONSUMPTION

FCOJ consumption for MY 2004 and MY 2005 remain unchanged. The industry does not expect domestic consumption of FCOJ to increase dramatically in CY 2005 because the majority of Mexican consumers prefer fresh squeezed juice instead of processed orange juice. Most of the orange juice produced in Mexico goes to the export market. According to processors, there is usually about a 3,000 MT carryover of FCOJ from one year to the other, however, due to the lower processing volume for MY 2003 and 2004, the carryover was reduced to approximately 1,000 MT.

TRADE

The export estimates for FCOJ for MY 2005 were revised upward due to good international demand. The United States is the main market for Mexican FCOJ, followed by Japan and European countries. According to industry, Mexico will try to export more juice to Europe and Japan in MY 2005 to take advantage of the lower tariffs it enjoys under the respective trade agreements it has with those entities. Exports for MY 2004 were also revised upward due to greater international demand. Exports for MY 2003 remain unchanged. FCOJ imports for MY 2004 and MY 2005 were revised upward due to higher demand of FCOJ by hotels and restaurants. Imports for MY 2003 remain unchanged.

FCOJ is one of the few remaining agricultural products still subject to a tariff and TRQ under NAFTA. For U.S. FCOJ imports into Mexico, the TRQ is 734,670 liters and the tariff is one-half the MFN rate, or 4.625 percent. For Mexican FCOJ imports into the United States, the

TRQ is 151,416,000 liters and the tariff is one-half the MFN rate, or 4.625 percent. Both duties go down to zero in MY 2006, but the TRQ volume amount for both remains in effect until 2008. During MY 2004, Mexico exported about 14,507 MT of FCOJ to the United States.

Under Mexico's free trade agreement with the European Union (EU), the EU allows 30,000 MT of FCOJ under a quota with a tariff of 25 percent below the MFN duty. Mexico will also send product to Japan under the trade agreement that allows a TRQ of 3,850 MT at one-half of the MFN tariff duty. During MY 2004, Mexico exported about 3,882 MT to the EU and 1,547 MT to Japan.

Other Citrus

Data for fresh citrus and grapefruit remain unchanged from our annual report (see MX4136).